

## **Haliela Pradeshiya Sabha - 2022**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Haliela Pradeshiya Sabha for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operation, and other explanatory information, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 172 (1) of the Pradeshiya Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Haliela Pradeshiya Sabha as at 31 December 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha
- Whether the Pradeshiya Sabhahas performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Report on Other Legal Requirements**

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- a) Financial statements of the Pradeshiya Sabha are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- b) The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, have been included in the financial statements presented

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) Capital expenses amounting to Rs. 35,405,373 incurred on development activities of the playground of the Hali Ela Pradeshiya Sabha during the period 2017-2021, had not been brought to accounts.	Corrective measures will be taken in the ensuing year.	Accounts should be prepared correctly.
(b) The sum of Rs. 1,296,450 paid on tyres of vehicles under the rural development assistance project, had been brought to accounts twice in the statement of financial operations.	- Do.	- Do.
(c) In correcting the error of making payments from the bank account of the rural development assistance project in respect of expenses incurred by the Sabha during the year under review, that expenditure had been accounted twice as Rs. 6,711,381 under recurrent and capital expenditure.	- Do.	- Do.
(d) The sum of Rs. 5,131,139 receivable from 08 works that had been reimbursed as at 31 December of the year under review with respect to the preceding year, had not been eliminated from accounts.	- Do.	- Do.
(e) Seven works valued at Rs. 7,239,556 that had not been commenced even up to 31 September 2022 after being agreed to execute using funds from the Sabha Fund during the year under review, had been brought to accounts as creditors in the statement of financial position.	Action is being taken to commence the works.	- Do.

- (f) The sum of Rs. 1,131,471 that had been settled against the salaries and allowances of the year 2018, had again been brought to accounts as creditors. Corrective measures will be taken. - Do.
- (g) Works and sundry creditors' balances totaling Rs. 7,019,194 paid as at 31 December of the year under review relating to the years 2019, 2020, and 2021, had not been settled in the accounts. Will be corrected through a journal entry. - Do.

### 1.6.2 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs. 302,569 between the schedules and 02 items of accounts as at 31 December of the year under review.	Corrective measures will be taken.	Differences should be identified between account balances and corresponding reports thereby reconciling the balances.

### 1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comment of the Sabha	Recommendation
As detailed schedules, letters of confirmation of balances, and age analyses required to confirm the machinery, industrial creditors and other outstanding balances totaling Rs. 138,193,270 had not been presented, it could not be satisfactorily examined in audit.	Will be corrected in the ensuing year.	Documentary evidence required to confirm the balances should be presented.

## 1.7 Non-compliances

### Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and management decisions are as follows.

Reference to Laws, Rules and Regulations	Audit Observation	Comment of the Sabha	Recommendation
Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka.	Advances totaling Rs. 235,048 paid to officers in 05 instances for miscellaneous purposes during 2011-2022, had not been settled even up to the end of the year under review.	Action will be taken to recover the outstanding balance.	Advances should be settled as soon as the completion of the intended purpose.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, revenue of the Pradeshiya Sabha in excess of the recurrent expenditure for the year ended as at 31 December of the year under review, amounted to Rs.15,211,206 as compared to the corresponding revenue in excess of the recurrent expenditure for the preceding year amounting to Rs. 30,417,043.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year as per information presented by the Chairman, are given below.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	RS.	RS.	RS.	RS.	RS.	RS.	RS.	RS.
(i) Rates	2,669,895	2,666,279	2,072,265	594,014	3,363,908	2,377,818	1,311,319	1,066,499
(ii) Lease Rents	3,885,902	3,934,032	3,364,203	569,829	2,751,902	3,672,260	1,781,435	1,890,825
(iii) Other Income	1,418,800	1,693,608	1,341,333	352,275	1,380,000	1,582,462	1,254,728	327,734
Total	7,974,597	8,293,919	6,777,801	1,516,118	7,495,810	7,632,540	4,347,482	3,285,058

#### 2.2.2 Performance in Collecting Revenue

Observations on collecting revenue by the Sabha are as follows.

Audit Observation	Comment of the Sabha	Recommendation
(a) Rates and taxes totaling Rs. 2,036,695 continued to exist over 02 years, had not been recovered even in the year under review.	Action will be taken for recovery of the dues.	Outstanding revenue should be recovered without delay.
(b) Outstanding lease rents for buildings of the Sabha totaling Rs. 135,890 continued to exist over 04 years along with outstanding stall rents totaling Rs. 2,013,815 continued to exist over a year, had not been recovered even in the year under review.	- Do.	- Do.

- (c) Charges on water totaling Rs. 379,482 remaining due over 02 years, had not been recovered even in the year under review. - Do. - Do.
- (d) Court fines totaling Rs. 10,943,504 and outstanding stamp fees totaling Rs. 14,406,196 receivable from the Chief Secretary of the Pradeshiya Sabha and other officials as at 31 December of the year under review, had not been recovered. - Do. Outstanding revenue should be recovered without delay.

### 3. Operating Review

#### 3.1 Execution of Duties Vested through the Act

The following matters were observed with respect to the execution of duties by the Municipal Council in terms of Section 03 of the Pradeshiya Sabhas Act, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

#### Solid Waste Management

Audit Observation	Comment of the Sabha	Recommendation
According to Section 23 (b) of the National Environmental Act, No. 47 of 1980, solid waste that can not be composted should not be disposed of at an open area in terms of Condition No. 2.4 of the environmental protection license. Recyclable waste should be segregated and sent for recycling. However, it had not been done so, and once segregated daily, a large volume of non-degradable waste had been disposed of openly at the waste management center itself.	This happened due to lack of employees, lack of space at the land and scarcity of resources.	Non-degradable waste should be properly recycled.

#### 3.2 Uneconomic Transactions

Audit Observation	Comment of the Sabha	Recommendation
Names of 40 members of the Sabha had been included in Sinhala and Tamil languages on the plaque of the public playground of the Pradeshiya Sabha, Hali Ela developed under provision from the Department of Sports Development. Payments amounting to Rs. 204,000 had been made on carving stones.	Done as per decisions of the Sabha.	Expenses should be managed.

### 3.3 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
<p>(a) The public playground of Hali Ela Pradeshiya Sabha had been developed by the Department of Sports Development at an expenditure of Rs. 18,695,911 and delivered to the Pradeshiya Sabha on 20 April 2022. An expenditure of Rs. 3,300,500 had been included for planting grass at the playground. Spots where grass had died were observed in field inspection on 18 January 2023. The playground, after being developed, had been delivered to the Pradeshiya Sabha despite inefficiencies in planting grass. The Pradeshiya Sabha had not taken corrective measures on those inefficiencies.</p>	<p>Will be replanted.</p>	<p>Action should be taken to correct the inefficiencies.</p>
<p>(b) Without following a formal Scheme of Recruitment and issuing letters of appointments, 04 laborers had been appointed on daily wages emphasizing the maintenance works; and, salaries totaling Rs. 811,472 had been paid from Sabha fund from 02 June 2022 to 31 December 2022. However, maintenance works of the playground had not been adequately done.</p>	<p>They had been recruited in terms of Letter No. 12/1/8/1/6 of the Commissioner of Local Government Sabha fund from 2023. 03.03.</p>	<p>Approval should be obtained on staff before being recruited. Their service should be dated adequately obtained.</p>

### 3.4. Assets Management

Audit Observation	Comment of the Sabha	Recommendation
<p>As there was no operator, the motor grador of the Sabha worth Rs. 24,928,666 remained idle at the Uduwara sub office over a period of 05 years.</p>	<p>Service requirement for this machine is rare. When necessary the backhoe operator is assigned.</p>	<p>A local authority with service requirements should be given the machine.</p>

### 3.5 Deficiencies in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) Utilizing provision from the State Ministry of Rural and School Sports Infrastructure Improvement and under supervision of the Divisional Secretariat, Hali Ela, an agreement valued at Rs. 3,500,000 had been entered into with the Divisional Secretary of Hali Ela to construct the public toilet at the playground of Hali Ela Pradeshiya Sabha under an estimate of Rs. 3.5 million. Works should have been completed by 31 December of the preceding year as per the agreement, but it had not been done so even by 31 December of the year under review, and a sum of Rs. 991,735 had been paid to a farmers' association for that work.	Such deficiencies occurred due to delay in receiving provision. The relevant authorities have been requested for provision.	The works should be completed expeditiously.
(b) Although 20 days had lapsed since the expiration of the period of agreement relating to 03 works valued at Rs. 4,392,358 to be executed using funds from the Sabha Fund during the year under review, only the foundation of one work had been dug, and at least constructions of 02 works had not been commenced.	Action will be taken to execute the works.	Action should be taken to expeditiously complete the works.
(c) As for making payments from the Sabha Fund for the work of preparing the canal of the Uduwara Kolluwatta road during the year under review, an overpayment of Rs. 174,781 had been made under Item Nos. 02, 03, and 04 of works. Bottom of the right wall from the beginning of the canal had eroded over a length of 02 meters, and the right wall over the eroded area had totally separated. It was not observed that reinforcement had been applied to a height of 0.3 meters at eroded location of the canal.	Not replied.	Overpayments made should be recovered expeditiously.



#### 4. Accountability and Good Governance

Audit Observation	Comment of the Sabha	Recommendation
<p>-----</p> <p>According to Condition No. 2.7 of the environmental protection license, waste generated in producing compost should be purified and disposed or reused, and under no circumstance such waste be allowed into the environment. Nevertheless, there existed a risk that garbage from the solid waste dumped openly, would end up in Badulu Oya during rainy season. Polythene being disposed, had scattered in the area due to wind and animals.</p>	<p>-----</p> <p>This happened due to lack of employees , lack of space at the land and scarcity of resources.</p>	<p>-----</p> <p>Waste should be disposed of properly.</p>